

**Testimony on H.R. 1053: the Common Cents Stock Pricing Act of 1997
To the Subcommittee on Finance & Hazardous Materials of the House Committee
on Commerce**

**By John N. Tognino, President
Security Traders Association
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Mr. Chairman, Members of the Committee:

I am John Tognino, President and Chief Executive Officer of the Security Traders Association. The STA represents 7,500 registered representatives and professional traders employed by broker/dealers and institutional investors. I was associated with Merrill Lynch & Co. for thirty-five years as a trader, salesman, institutional sales trader, and international executive. I was also Executive Vice President of Capital Markets and Trading at Charles Schwab and Co. The STA has not taken a position on this legislation at this time, so the comments I am making are my own.

I am pleased to be here today and I thank you for the opportunity to offer my views on this legislation. I commend the Subcommittee on seeking input from those who have experience in committing capital to facilitate transactions and provide liquidity.

Decimalization is not, as some would have you believe, a "no brainer."

Trading in decimals may be in the public interest but there are questions that must be answered and issues addressed before we can move forward. The Security Traders Association is committed to working with you to accomplish our common goal of promoting the interests of investors.

The protection of investor interest involves an equation in which reducing spreads and decreasing trading increments are only one side. The equation is completed when investors are assured of the ability to buy or sell when they wish to do so. Investors are not helped if they save pennies getting an execution but lose dollars because prices “gap” when public orders disappear and dealers are not willing to place their capital at risk to provide liquidity.

I and many of my colleagues within STA would encourage a detailed analysis and study because our industry is undergoing a great deal of change as evidenced by the order handling rules, the millennium changes, and the unprecedented market volume. We should study the experience of others with an emphasis on the resultant volume, liquidity, and the volatility that is produced to reach adequate levels of liquidity. Add to this the manipulative potential that exists in a decimal environment, the subsequent effect on dealer markets, and the real costs of introducing decimals, and we believe that there is enough basis for further study.

During the hearings and in the submitted material there is an assumption

that the dealer and the auction markets all react the same way. I would caution everyone that these are two distinct disciplines. Within the negotiated market analysis must consider the support necessary for IPOS in the secondary market, the effect this legislation would have in a down cycle of the market, and the fact that a majority of trades in the negotiated market involve a dealer on one side of the transaction. Innovations that are introduced with the best intentions sometimes go astray and are not easily, if at all, corrected.

We would in fact, like to suggest a significant modification in H.R. 1053. In its current form Congress is making the decision to implement decimalization and leaves only the time and manner to the discretion of the SEC. We respectfully suggest the bill be modified to give the SEC the discretion, if as the result of its year long examination of the issue, it finds that mandating decimalization is not in the public interest or alternatively, it becomes apparent that competitive market forces will introduce decimalization. Our markets will be stronger if decimalization comes about from competitive forces instead of legislative mandates.

My comments today are in support of your goals but as a former practitioner, I submit there are four issues that should be addressed before decimalization is introduced:

1. How can we avoid professional market participants from stepping in front

of investor limit orders and disadvantaging public customers?.

2. Regarding any possible reduction in liquidity I would urge you to look at the secondary and tertiary stocks as well as IBM, Intel, and Microsoft. The trading pattern of the 2500th stock on NASDAQ is very different from that of the 250th.

3. What is the real cost of decimalization in terms of retrofitting, time, human resources, and volatility.

4. Finally, all enhancements and innovations to our markets are important, what are our national priorities regarding our capital markets. Have we established them and if so which ones deserve our closest attention and which ones will help our investors and markets most.

Thank you. I will be happy to answer and questions you have for me.

Disclosure Statement for John N. Tognino

Pursuant to Rule XI, clause 2(g)(4) of the Rules of the House, and Rule 4(b)(2) of the Committee I make the following statement:

I, John N. Tognino, have not received any federal grants and have no federal contracts.